

LAW OFFICES

BIRCH, HORTON, BITTNER AND CHEROT

A PROFESSIONAL CORPORATION

1155 CONNECTICUT AVENUE, N.W. • SUITE 1200 • WASHINGTON, D.C. 20036-4308 • TELEPHONE (202) 659-5800 • FACSIMILE (202) 659-1027

THOMAS L. ALBERT*†‡
 RONALD G. BIRCH**
 WILLIAM H. BITTNER
 KATHRYN A. BLACK
 PHILIP BLUMSTEIN
 CORY R. BORGESON
 DOUGLAS S. BURDIN*
 JOHN J. BURNS
 SUZANNE CHEROT
 JOHN J. CONNORS
 ALLAN E. CURLEE
 KIM DUNN

RALPH V. ERTZ
 JOSEPH W. EVANS**
 LEIF E. FONNESBECK
 TINA G. FRASHER
 WILLIAM P. HORN*
 HAL R. HORTON**
 STEPHEN H. HUTCHINGS
 ROY S. JONES, JR.*
 MARA E. KIMMEL
 THOMAS F. KLINKNER
 KAREN Y. KNOTSON‡
 KAREN T. KOVACS*

HARVEY A. LEVIN*†
 STANLEY T. LEWIS
 JAMES H. LISTER*†‡
 GREGORY A. MILLER
 MICHAEL J. PARISE
 DAVID G. PARRY
 TIMOTHY J. PETUMENOS
 ELIZABETH A. PHILLIPS
 ERIC D. REICIN*
 ELISABETH H. ROSS**
 CHRISTOPHER J. STROEBEL

* D.C. BAR
 ** D.C. AND ALASKA BAR
 † MARYLAND BAR
 ‡ VIRGINIA BAR
 ALL OTHERS ALASKA BAR
 MARY A. NORDALE, OF COUNSEL

1127 WEST SEVENTH AVENUE
 ANCHORAGE, ALASKA 99501-3399
 (907) 276-1550
 FACSIMILE (907) 276-3680

KEY BANK BUILDING
 100 CUSHMAN STREET, SUITE 311
 FAIRBANKS, ALASKA 99701-4672
 (907) 452-1666
 FACSIMILE (907) 456-5055

February 4, 1997

RECEIVED

FEB 4 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. Bruce Caton
 Secretary
 Room 222
 Federal Communications Commission
 1919 M Street, N.W.
 Washington, D.C. 20554

re: **Written Ex Parte Presentation**
CC Docket No. 95-182
and
Alascom, Inc., Tariff FCC No. 11, Transmittal No. 852

Dear Secretary Caton:

Enclosed are four copies of a written ex parte presentation made on behalf of ATU-LD, dated January 29, 1997, and addressed to Al Barna, Esq., of the Competitive Pricing Division of the Common Carrier Bureau. Pursuant to Note 2 to 47 CFR § 1.1206, two of the copies are for filing in CC Docket No. 95-182, and two of the copies are for filing in a tariff proceeding known as "In the matter of Alascom, Inc., FCC Tariff No. 11, Transmittal No. 852." This ex parte filing is made to ensure inclusion of the presentation in the record of both proceedings.

Also enclosed is an extra copy of this cover letter, which I would appreciate your file-stamping and returning in the enclosed envelope.

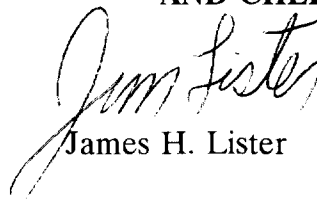
025

Mr. Bruce Caton
February 4, 1997
Page 2

Please call if you have any questions.

Sincerely,

**BIRCH, HORTON, BITTNER
AND CHEROT**



James H. Lister

cc:

Al Barna, Esq.
Mr. R.L. Smith
Mr. Cameron Kashani
Room 518, FCC
1919 M Street, N.W.
Washington, D.C. 20554

Joe Edge, Esq.
901 15th St. NW
Suite 900
Washington DC 20005

Charles R. Naftalin, Esq.
Koteen & Naftalin, L.L.P.
1150 Connecticut Ave., N.W.
Washington, D.C. 20036

Ms. Karen Brinkmann
(with enclosure)
Room 5002, FCC
2025 M Street, NW
Washington, DC 20554

LAW OFFICES

BIRCH, HORTON, BITTNER AND CHEROT

A PROFESSIONAL CORPORATION

1155 CONNECTICUT AVENUE, N.W. • SUITE 1200 • WASHINGTON, D.C. 20036-4308 • TELEPHONE (202) 659-5800 • FACSIMILE (202) 659-1027

THOMAS L. ALBERT***
 RONALD G. BIRCH**
 WILLIAM H. BITTNER
 KATHRYN A. BLACK
 PHILIP BLUMSTEIN
 CORY R. BORGESON
 DOUGLAS S. BURDIN*
 JOHN J. BURNS
 SUZANNE CHEROT
 JOHN J. CONNORS
 ALLAN E. CURLEE
 KIM DUNN

RALPH V. ERTZ
 JOSEPH W. EVANS**
 LEIF E. FONNESBECK
 TINA G. FRASHER
 THOMAS A. GATLIN
 WILLIAM P. HORN*
 HAL R. HORTON
 STEPHEN H. HUTCHINGS
 ROY S. JONES, JR.*
 MARC W. JUNE
 KAREN T. KOVACS*

HARVEY A. LEVIN**
 STANLEY T. LEWIS
 JAMES H. LISTER***
 GREGORY A. MILLER
 MICHAEL J. PARISE
 TIMOTHY J. PETUMENOS
 ELIZABETH A. PHILLIPS
 ERIC D. REICIN*
 MICHAEL V. REUSING
 ELISABETH H. ROSS**
 CHRISTOPHER J. STROEBEL

* D.C. BAR
 ** D.C. AND ALASKA BAR
 * MARYLAND BAR
 * VIRGINIA BAR
 ALL OTHERS ALASKA BAR

MARY NORDALE, OF COUNSEL

RECEIVED

FEB 4 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

1127 WEST SEVENTH AVENUE
 ANCHORAGE, ALASKA 99501-3563
 (907) 276-1550
 FACSIMILE (907) 276-3680

KEY BANK BUILDING
 100 CUSHMAN STREET, SUITE 311
 FAIRBANKS, ALASKA 99701-4672
 (907) 452-1666
 FACSIMILE (907) 456-5055

January 29, 1997

Mr. Al Barna
 Federal Communications Commission
 Competitive Pricing Division
 Room 518
 1919 M Street, NW
 Washington, DC 20554

Written Ex Parte Presentation
 CC Docket No. 95-182
 and
 Alascom, Inc., Tariff FCC No. 11, Transmittal No. 852

Dear Al,

We had a meeting with you on January 15, 1997, concerning AT&T Alascom's Tariff 11 proposal. As a result of our meeting, we thought it would be helpful to provide the following information.

1. At the meeting we noted that within the last few days, we had received a telephone call from AT&T Alascom indicating that it was finally going to be able to make available to us private line facilities on the fiber optic cable serving Alaska.¹ We provided you this update because we had stated in the Declaration of Charles Carpenter (filed December 10, 1996) that Frontier had placed an order for four DS-1s with AT&T Alascom in its name to be used for ATU-LD on June 3, 1996. AT&T Alascom had responded by letter dated July 25, 1996, stating that this capacity was not currently available and that our order would be placed in a queue. We desired to lease these facilities because we could provide interstate service far more economically over them than by subscribing to switched service under Tariff 11. We later placed an order for two additional DS-1s in our own name.

AT&T has indicated verbally that it will begin turning up there facilities by February 15, 1997, for customers waiting in the queue. We would then receive our service based on

¹ Currently, the State of Alaska is served by one interstate submarine fiber optic cable, the "Alaska Spur" which is a leg of a transpacific fiber optic cable. The cable was built by Pacific Telecom Cable, a subsidiary of Pacific Telecom, Alascom's prior owner. When Pacific Telecom sold Alascom to AT&T, it included sale of the Spur in the transaction. Alascom and GCI both have substantial capacity on the Spur, making it difficult for other carriers to obtain capacity.

Mr. Al Barna
January 29, 1997
Page 2

our position in the queue, which could be by mid-to-late February or March, 1997. We may receive the original four DS-Is ordered by Frontier at that time.

We do not believe that AT&T's system for deciding which carriers will be provided capacity is contained in its tariff. AT&T's letter of July 25, 1996 did not cite any tariff section describing the queuing rules to us. We do not believe that AT&T's queuing rules have been reviewed by the APUC or the FCC. To the extent that capacity is currently, or may at some point become, fully exhausted, it might be reasonable, for example, for AT&T to distribute available capacity pro-rata among carriers based on their respective customer requirements, rather than maintaining for itself the capacity it has previously used. This would prevent the freezing out of new carriers. Since it is the only fiber optic cable connecting Alaska with the Lower 48, space is extremely important for all carriers competing in that market.

We note that AT&T's provision of private line circuits will lessen the financial consequences to us of an FCC action suspending Tariff 11 for one day prior to setting it for investigation (with the rates put into effect on an interim refundable basis), compared to an FCC action suspending the Tariff for a longer period (with the new rates not in effect).

2. We would like to provide information on how a call would be transmitted through ATU-LD's system. A customer would designate ATU-LD as its interstate and/or intrastate long distance carrier. Assuming that the customer originated a call in Anchorage, his call would receive dialtone from Anchorage Telephone Utility's (ATU) end office (EO). The EO formulates an Initial Address Message and routes the call over ATU-LD's dedicated trunks to ATU's Access Tandem switch (AT). Upon arrival at the AT this call would be translated and routed via ATU-LD's dedicated trunks to AT&T Alascom's DMS-200 switch. AT&T Alascom DMS routes the call (based on the dedicated incoming trunk group) to AT&T's 4-ESS in Portland, which then transmits the call to Frontier Communications, ATU-LD's Lower 48 long distance carrier. Frontier would transmit the call to the local company serving the termination point.

3. In its Supplemental Reply dated December 20, 1996, AT&T attempted to describe certain technical problems it faced with ATU-LD's interconnection with Frontier which had delayed provision of service. AT&T stated:

With respect to interconnection with Frontier, ATU required that the network be able to identify and route all calls based upon the originating carrier code, i.e. for southbound service identify all codes originating with ATU and then

Mr. Al Barna
January 29, 1997
Page 3

route them to Frontier, and for northbound service identify all calls originating with Frontier and then route them to ATU. Such capabilities had never been deployed before, and therefore substantial development was necessary. This problem was exacerbated because ATU would not provide Transit Network Selector ("TNS") codes (see Attachment No. 2) and, in addition, Frontier would not establish a point of presence or a point of interconnection in Alaska. Either of those approaches would have made provision of service in the way ATU wanted it far less complicated.

Supplemental Reply of Alascom, Inc., pp. 6-7.

We do not believe that ATU-LD's interconnection request with AT&T, including its Lower 48 handoff to Frontier, posed problems that were beyond the scope of those typically encountered with any new carrier-to-carrier start up arrangement. From AT&T's description, it would appear that ATU-LD's needs caused interconnection problems in that ATU would not pass the TNS codes forward to Alascom from its switch, and Frontier would not establish an Alaska point of presence. This is not true.

AT&T created its own problem by building a single Tariff 11 trunk group designed for all switchless resellers and switching it through AT&T's 4-ESS switch in Portland, Oregon.² The Portland 4-ESS requires the TNS parameter. Based on some preliminary research, we believe that AT&T's practice of requiring the TNS parameter may not be consistent with general industry practices and Bellcore specifications. According to the Bellcore standard we found, the TNS is only passed forward to a carrier if the call is

² It is unclear why the terms of Alascom's Tariff 11 service would be governed by AT&T's switch needs in the Lower 48. AT&T is a Tariff 11 customer, not provider.

Mr. Al Barna
January 29, 1997
Page 4

international.³ ATU's practice of not passing the TNS forward on domestic interstate calls is consistent with Bellcore standards.

AT&T Alascom has said that ATU-LD is not the only Tariff 11 customer. AT&T Alascom carries AT&T's traffic on Tariff 11 and also GCI's. If the problem stems from ATU's inability to pass the TNS forward, why has this not impeded AT&T's calls or GCI's calls under Tariff 11? Is AT&T Alascom not using the TNS field for GCI's or its parent's traffic?

Even if ATU were capable of forwarding the TNS parameters to AT&T Alascom, we wonder whether AT&T Alascom's DMS switch could transmit it forward to AT&T's 4-ESS switch in Portland. We assume that the DMS was designed according to the industry standards reflected in the Bellcore specifications. If so, the DMS software would be programmed to pass the TNS forward on international calls. We wonder if AT&T Alascom is imposing two different standards - one for its parent AT&T's traffic and one for certain other carriers?

³ Bellcore Specification GR-905-Core

4.1.2.6.6 Transit Network Selection (TNS) Parameter

The TNS parameter contains carrier identification and the circuit code. The circuit code is a four bit code that is used to convey information that is currently contained in the OZZ or 1N/N'X MF digits. This code depends on dialed digits-digits, the originating line class of service, and the chosen Interconnecting CCS Network (ICN). The purpose of this parameter is to indicate to an intermediate node or a network what carrier and circuit group is to be selected. For international calls, the receiving ICN may be an intermediate network, or an international operator may be required. The TNS in this case identifies the INC and whether or not an international operator is requested, and thus TNS is needed on such calls.

For domestic calls, the ICN receiving the call itself is identified in the TNS. As such, the TNS is not sent to an ICN irrespective of the direct EO or via AT access. However, if the circuit selected to an ICN is via an AT, the originating end office has to indicate to the AT what carrier and circuit group is to be used from the AT. The AT is capable of selecting one of up to four distinct trunk groups to a specified ICN based on the Carrier Identification Code and Circuit Code in the TNS parameter. The AT receiving the Initial Address Message (IAM) from the end office with a TNS parameter selects a trunk group based on the carrier and circuit identification, but does not include the TNS in the IAM to the ICN. Note that if the TNS parameter is present in the incoming IAM to the AT, the dialed digits will not be used for routing-only the carrier identification code and trunk group number in the TNS parameter along with the contents of the user service information parameter will be used to select the outgoing trunk group.

Mr. Al Barna
January 29, 1997
Page 5

As to Frontier's failure to establish a point of presence in Alaska, it is unclear why ATU-LD's Lower 48 long distance carrier should be required to meet Alascom in Alaska. The purpose of Tariff 11 is to provide facilities for transmitting calls between Alaska and the Lower 48. The Tariff has a Portland meet point.

As to northbound traffic issues, AT&T has yet to even provide northbound Tariff 11 service, even though the service has been on the books for over one year. ATU-LD has been unable to get information from AT&T regarding the signaling format required to route calls from the Lower 48 to Alaska. At last check, AT&T suggested that it would have an answer by the end of January, 1997.

ATU-LD's start-up with AT&T Alascom under Tariff 11 was very difficult and took nearly four months. At this time, AT&T has only achieved a temporary solution. ATU-LD would not like to see such an unnecessarily long delay for service order provisioning become institutionalized in AT&T Alascom's Tariff 11 for future service orders. It strongly opposes extending the service order provisioning time beyond 25 business days.

4. We discussed whether it would be more appropriate for AT&T to charge for transport service under Tariff 11 on a flat rate rather than a usage sensitive basis. We believe that it would be more appropriate for transport to be charged on a flat rate basis because the rate recovers non-traffic sensitive costs.

5. We have provided, for your information, a chart which compares how several hypothetical bush and non-bush originating calls would be rated under various revisions to Tariff 11. The chart shows that the increases proposed since Transmittal 790 are substantial in Anchorage and even larger in other non-Bush parts of the state. See Attachment A.

6. We enclose documents from the APUC record concerning AT&T's decision to consolidate its Alaska switching functions in Anchorage, removing switches from Juneau and Fairbanks network locations. The documents include:

- * Excerpt from the APUC hearing transcript at its Informal Conference concerning AT&T's acquisition of Alascom, dated March 15, 1995. The APUC Commissioners and GCI asked AT&T questions about its plans to eliminate switches in Juneau and Fairbanks. See pages 40-41, 49-51, 56-69.

- * GCI's letter dated March 16, 1995, in which it asks the APUC to include in its order approving AT&T's acquisition of Alascom a condition concerning AT&T's

Mr. Al Barna
January 29, 1997
Page 6

plan to consolidate the switches. GCI asked that AT&T coordinate network planning with it and not, without prior APUC approval, restructure the network in a manner that degraded service quality or increased prices to GCI.

* AT&T's response to the Commission dated March 28, 1995, in which it opposed placing GCI's conditions in an Order. AT&T suggested that the conditions were not necessary, because it would attempt to accommodate GCI's concerns anyway. AT&T said that it would not increase prices to GCI for the same tariffed services without a tariff filing. (p. 2).

* The APUC's Order No. 2, U-95-26 approving the Alascom acquisition by AT&T. The Commission declines to put GCI's conditions in the Order, finding that AT&T had voluntarily agreed to address GCI's concerns. (p. 9). The APUC required AT&T to coordinate network planning and changes with all Alaska carriers, not just GCI. (Id.) It did not consider, or rule on, whether AT&T's switch consolidation plan was reasonable.

We would be happy to meet with you again if you have any questions concerning this information.

Sincerely,

BIRCH, HORTON, BITTNER
AND CHEROT



Elisabeth H. Ross

Attachments

cc: Charles Naftalin
Joe Edge

Changes in Tariff 11
(totals exclude terminating and originating access paid to LECs)

		Non-Bush																Bush						
Originating City	Anchorage				Juneau				Fairbanks				Sitka											
				"9" to 852				"9" to 852				"9" to 852				"9" to 852				"9" to 852				
AT&T Transmittal No	790	797	852	'change	790	797	*852	'change	790	797	*852	'change	790	797	852	'change	790	797	852	'change				
Intra-Alaska Transport	0	0	0	0.0000	0	0	0.0535	0.0535	0	0	0.0535	0.0535	0.0228	0.0383	0.0535	0.0152	0.1147	0.2403	0.2681	0.0278				
Switching	0.0171	0.0218	0.023	0.0012	0.0171	0.0218	0.023	0.0012	0.0171	0.0218	0.023	0.0012	0.0171	0.0218	0.023	0.0012	0.0462	0.0381	0.0334	0.0047				
Alaska /Conus Transport	0.0193	0.0207	0.0202	(0.0005)	0.0193	0.0207	0.0202	(0.0005)	0.0193	0.0207	0.0202	(0.0005)	0.0193	0.0207	0.0202	(0.0005)	0.0193	0.0207	0.0202	(0.0005)				
Tariff 11 Total	0.0364	0.0425	0.0432	0.0007	0.0364	0.0425	0.0967	0.0542	0.0364	0.0425	0.0967	0.0542	0.0592	0.0808	0.0967	0.0159	0.1802	0.2991	0.3217	0.0226				
Percentage Change From 797 to 852				2%	Percentage Change From 797 to 852				128%	Percentage Change From 797 to 852				128%	Percentage Change From 797 to 852				20%	Percentage Change From 797 to 852				8%
Percentage Change From 790 to 852				19%	Percentage Change From 790 to 852				166%	Percentage Change From 790 to 852				166%	Percentage Change From 790 to 852				63%	Percentage Change From 790 to 852				79%

* ATU-LD's reading of Transmittal No. 852 is that under it "intra-Alaska" transport charges would apply to calls originating in Fairbanks and Juneau because of the removal of switching facilities in those communities. Sections 4.1.2 A and 4.1.2 C of Tariff 11 currently define intra-Alaska transport as transport between "a Company's point of interconnection in Alaska" and another point in Alaska, and define Alaska/CONUS transport as transport between "a Company's point of interconnection in Alaska" and the Continental United States. Section 4.8.1 of Tariff 11 currently lists Anchorage, Fairbanks and Juneau as points of interconnection within Alaska. Transmittal 852 would substitute in each of the sections cited above the phrase "a Company's switching center in Alaska", and would make a substantive change in omitting Fairbanks and Juneau (both of which were points of interconnection in Alaska) from the list of switching centers in Alaska. Anchorage would be the only switching center, and so the only place from where calls could be made without incurring intra-Alaska transport charge.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

In the Matter of the Application by)
AT&T Corporation to Acquire Controlling)
Interest in Alascom, Inc., Holder of) U-94-113
CPCN #98)
_____)

**ALASKA PUBLIC UTILITIES COMMISSION
INFORMAL CONFERENCE
HEARING ROOM
ANCHORAGE, ALASKA
MARCH 15, 1995**

B E F O R E:

DON SCHRÖER, Chairman, APUC

AND:

JAMES E. CARTER, SR., Commissioner, APUC
TIM COOK, Commissioner, APUC
ALYCE A. HANLEY, Commissioner, APUC
DWIGHT D. ORNQUIST, Commissioner, APUC

APPEARANCES:

FOR COMMISSION STAFF: ROBERT LOHR, Executive Director
LEW CRAIG
AGNES GILES
LORRAINE KENYON
WILLIAM MARSHALL
Alaska Public Utilities Commission
1016 West 6th Avenue, Suite 400
Anchorage, Alaska 99501
(907) 276-6222

JEFFREY D. LANDRY, ESQ.
Assistant Attorney General
State of Alaska
Department of Law
1031 West 4th Avenue, Suite 200
Anchorage, Alaska 99501
(907) 269-5100

1 opportunity to answer whatever questions they want, because
2 they're the guys that are on the hot seat. Go ahead, Jimmy,
3 then.

4 MR. JACKSON: Thank you.

5 CHAIRMAN SCHRÖER: Told you it was informal.

6 MR. JACKSON: You know I never object to this formal.
7 Thank you and good morning. We thank you for the opportunity
8 to provide comments this morning on the application of AT&T to
9 acquire a controlling interest in Alascom. It appears that our
10 seating is fortuitous, given that we are between AT&T and
11 Alaska Telecom.

12 We support the application of AT&T to acquire controlling
13 interest in Alascom. We believe it should be approved, with
14 relatively minor conditions. We do not believe that the
15 granting of the application will lead to the disastrous
16 consequences in the market projected by Alaska Telecom.
17 Indeed, GCI believes that it will fare better in competition
18 against AT&T than against Alascom -- the old Alascom -- and we
19 have fared pretty good in that war also. We believe that
20 competition in Alaska will flourish.

21 I would first -- first I will address certain conditions
22 that we believe should be placed on the transaction and should
23 be included in an approval of the transaction, and explain the
24 reasons for those conditions. Then I'll address the comments
25 made by Alaska Telecom in their recent pleading and also some

1 of their comments this morning.

2 But before I get to those two things, I'd like to address
3 one characteristic of the Alaska market which you must remember
4 in thinking about our conditions, in thinking about Alaska
5 Telecom's pleading, and in thinking about most of what they've
6 said this morning. That characteristic is that GCI and all
7 other carriers are now prevented by both the APUC and the FCC
8 from building facilities in most of what is called bush Alaska.
9 That's commonly called the bush earth station restriction.

10 The APUC has a specific list of locations where we and
11 anyone other than Alascom can ^{BUILD} ~~build~~ competitive facilities.
12 That list is 3 AAC 52.355. It generally is the same as the FCC
13 rule, which doesn't state specific locations but which states
14 that competitive facilities cannot be built in locations with
15 less than a thousand people that are not connected to the road
16 system. Competition doesn't exist in those areas, and there's
17 nothing about Alascom's -- Telecom's fiber that can do anything
18 to bring competition to those areas, which is a vast area in
19 Alaska.

20 Also, because we cannot build in those locations, we must
21 use Alascom to terminate calls from one of our customers to
22 those locations. And we pay them wholesale rates based on a
23 wholesale tariff, for them to do that. So when I or any other
24 GCI customer picks up the phone to call, say, White Mountain,
25 GCI must hand that call to Alascom to have it completed.

-38-

1 As a consequence of that restriction, GCI obviously does
2 not have as many facilities, serve as many locations, use as
3 much transponder space, as Alascom. That fact alone explains
4 much of the data presented by Alaska Telecom in their chart
5 which compares facilities. Where Alascom has 200 and something
6 earth stations, we've got 10 -- yes, that's because we're not
7 allowed to serve those 200 places.

8 Also as a consequence, GCI, of necessity, has designed,
9 placed, and sized our facilities so that we can interconnect
10 with Alascom in the most efficient manner possible when handing
11 them calls to take to places that we don't serve. We had to
12 plan our facilities based on the existence of their facilities
13 and that rule. And we'll talk some more about that later.

14 Now, we don't think it's necessary for the APUC to address
15 or change the bush earth station restriction in this
16 proceeding. It is likely that we will be coming to you in the
17 next year to request at least a modification of the
18 restriction.

19 As you have probably read, we have just completed a
20 demonstration in Washington, D.C. of our version of the DAMA
21 technology, the equipment we specifically designed to go with
22 the DAMA technology, and we've demonstrated its capabilities
23 and advantages. In the future we will be coming to ask for the
24 right to install that equipment in places where we are not now
25 allowed to install any equipment.

-39-

1 The DAMA technology, we'll also have to bring it up again
2 a little bit later in responding to some -- Alaska Telecom's
3 presentation this morning.

4 Even though we're not asking you to change the bush earth
5 station restriction in this proceeding, it still affects this
6 proceeding in a couple of ways. AT&T has stated that it plans
7 to remove Alascom's switches in Juneau and Fairbanks. And it
8 seems that they will have only one switch, a switch in
9 Anchorage. I guess they're actually going to remove all three
10 and replace just the one in Anchorage, leaving no switches in
11 Juneau and Fairbanks. That represents a major restructuring
12 of Alascom's network. And it will therefore have a major
13 impact on us in the way we've set up our system to hand calls
14 to them. The entire structure of the wholesale rates and
15 tariffs is premised on the existence of Alascom switches in
16 Anchorage, Juneau, and Fairbanks. And now they plan on
17 changing it.

18 On top of that, the entire method which Alaska worked out
19 to handle number portability for 800 services is premised on
20 the existence of equipment called STP's and the switches in
21 those locations. Again, Alascom -- or the new Alascom appears
22 to be -- that they're going to change that. Now, that doesn't
23 mean we're against them making the change. It may well be a
24 good idea.

25 But now I get to the point that I want to emphasize, is

-40-

1 we do not believe that they should have the unilateral right
2 to restructure the network in a manner that degrades the
3 quality or increases the price of the wholesale service which
4 we're obtaining from them. They should coordinate their
5 restructuring with us so that we know what is going on, so that
6 we can have input, and so that we can restructure our network
7 to the extent necessary, and so that we can bring any problems
8 or complaints, if they arise, back to the Commission.

9 So that is the first condition that we believe should be
10 put on the application, which is simply that Alascom be
11 required to keep us informed of their planning -- planned
12 restructuring, to coordinate network planning and
13 interconnection, and that they should not be allowed to
14 restructure in a way that degrades the quality or increases the
15 price of service without getting⁶ prior approval. And the
16 Commission should retain jurisdiction over these network
17 changes to oversee any problems that arise.

18 And again, we suspect we will work this all out with them
19 and you will never hear about this again. But if we don't, it
20 could be an enormous problem for us. And for us, it means the
21 people that we serve. And we don't want to get to that day
22 when they pull out their switches, and our customers can no
23 longer make calls to places where we're not allowed to provide
24 service and where we have to use them.

25 The next issue concerns the entity that, after the

-41-

1 application is approved, will have the authority now held by
2 Alascom. It is our understanding that the entity that will
3 have authority to provide intrastate interexchange service will
4 still be Alascom and that no new entity will have authority.
5 Alascom will be owned by a new parent, AT&T rather than PTI.
6 But AT&T will not have authority to provide service except
7 through Alascom. And at least for now, Alascom's name remains
8 Alascom. That means AT&T will not have authority of its own
9 and service will be provided -- will not be provided in AT&T's
10 name. That could be changed in the future, if they file a
11 different application. But that's the way it will be as a
12 result of this application, and the order approving the
13 application should be explicit about that. They have not asked
14 for anything else.

15 Those are the only intrastate^s issues that we have. We
16 don't think they should be controversial and we don't think
17 they should delay approval of the application. AT&T should
18 agree to the conditions and the understanding, and the
19 application should be approved.

20 Now I come to the pleading of Alaska Telecom. Initially
21 I want to say that it may be true that Alaska Telecom's
22 prospects for building a cable from the Pacific Northwest to
23 Alaska may be diminished by the transaction between AT&T and
24 Alascom. I don't know that and we're not the best judge of
25 that. We do agree that it would be good to have another fiber.

1 And we are a potential purchaser of capacity on that fiber.

2 Beyond that agreement, I have to characterize Alascom's --
3 Alaska Telecom's pleading as more a work of fiction than of
4 fact. It is based on a very fundamental misunderstanding of
5 the present conditions in Alaska, the market conditions.

6 Alaska Telecom states that GCI will be unable to compete
7 with AT&T's nationally integrated rates. They say that several
8 times in their pleading. GCI is going to die because we will
9 be forced to compete with AT&T's nationally integrated rates.
10 In fact, GCI has been competing against nationally integrated
11 rates for over 10 years. Ten years ago, Alascom was required
12 to mirror AT&T's ^{INTERSTATE} interstate rates. Those are the rates we have
13 been competing against every since then. Those will be the
14 same rates we compete against in the future.

15 At the same time that Alaska Telecom's pleading in the
16 same pleading where they say we won't be able to compete
17 against nationally integrated rates, they say that the
18 transaction abandons the policy objective of the continuation
19 of rate integration. There seems to be an irreconcilable
20 conflict between the statement that Alascom will be charging
21 integrated rates and their statements that rate integration has
22 been abandoned.

23 Finally, to paraphrase the famous quote, "The rumors of
24 GCI's expected demise are greatly exaggerated." Back when GCI
25 first went into business, the prevailing wisdom was that GCI

-43-

1 could not possibly survive. Back again in 1991, when GCI was
2 applying to provide intrastate service, Alascom filed a
3 pleading stating that GCI could not pay its debts and was not
4 financially fit to provide service. I'm here to tell you that
5 1994 was by far the best year that GCI has ever had. We are
6 doing fine in competition, and we believe we can do fine in
7 competing against Alascom after it is owned by AT&T.

8 The statistics regarding facilities in Alaska Telecom's
9 pleading are a reflection not of our health, but of the bush
10 earth station restriction that I talked about before. The
11 financial numbers are, first, out of date and significantly
12 better if 1994 is included; and two, they are the reflection
13 of a young company that's concentrating on growth rather than
14 on dividends.

15 Alascom's quote from our Form 1040 regarding the effect
16 of Sprint and GCI leaving our network is sort of like reading
17 the warning label on a bottle of aspirin and deciding it's
18 going to wipe out our population. Every company makes such
19 disclosures to shareholders.

20 And we also don't think there's a real risk that MCI and
21 Sprint are suddenly going to rush to do business with Alascom
22 because Alascom is now owned by AT&T. If anything, it would
23 be quite the opposite.

24 Turning a little bit to the proceeding or the presentation
25 this morning by Alaska Telecom -- and I may get a little bit

-44-

1 more disjointed here, but I think I can go through it -- they
2 talk about how their fiber is going to save competition in
3 Alaska. Their fiber goes from Pacific Northwest to Juneau and
4 Anchorage. It's going to have very little to do with
5 intrastate competition. All of their analysis regarding the
6 satellite and the cost of the satellite, cost of the satellite
7 transponder capacity, is probably correct; but again, their
8 fiber doesn't help that. There is not much of satellite
9 traffic which can be put on that transponder. There is some;
10 but the satellite traffic involves calls from Anchorage to the
11 bush, primarily, and from one bush location to another bush
12 location. Their fiber is not going to have a thing to do with
13 that.

14 The solution to that problem is the DAMA technology, which
15 reduces the satellite transponder needs by a half -- it reduces
16 it by a half to two-thirds; in other words, it reduces it to
17 approximately a -- between a third and a half of what is now
18 required. So there is a technological innovation which is not
19 a fiber, but which is DAMA, which reduces the cost of that
20 satellite tremendously.

21 Also, note that their chart had a 25-year for the cable.
22 I -- for the fiber. I -- in view of some of the recent
23 problems with that fiber, I think 25 years might be pretty
24 optimistic. If you reduce that, a few of the numbers aren't
25 going to come out so good.

-45-

1 They question why -- how can you explain GCI's
2 participation in this proceeding. Well, GCI has been
3 participating in the proceedings involving the market structure
4 in Alaska since those proceedings began 10 years ago. I think
5 it would be quite odd if we were not here. And once again,
6 they get quite contradictory. On the one hand, they say we are
7 here to do nothing but preserve a market structure which will
8 allow us to survive. On the other hand, they say the market
9 structure we're advocating is going to lead to our death. I
10 don't think they can have it both ways.

11 GCI has participated in the market structure proceedings
12 from the beginning, because GCI wanted to eliminate the
13 tremendous subsidy to its competitor and also, GCI is
14 interested in lifting the bush earth station restriction
15 eventually. That will be easier to do in this new environment.

16 Under the Market Structure Order which they seem to
17 prefer, it leaves Alascom with that bush monopoly. And if that
18 order were implemented, we think it is likely that Alascom
19 would cling to that bush monopoly with every ounce of strength
20 that they have, because that will be just about all they do
21 have left. And there will never be any competition in the vast
22 majority of the bush areas of Alaska, any facilities-based
23 competition in the vast majority of Alaska, pursuant the New --
24 pursuant to the New Market Structure Order, which is what they
25 are asking that we keep.

1 We think the prospects for competition are much better in
2 that area of Alaska once AT&T buys Alascom than with the
3 Alascom that we have now.

4 That's all I have. Thank you.

5 CHAIRMAN SCHRÖER: What's your pleasure? Want to take a
6 little break and let them digest the comments?

7 (Side conversation)

8 CHAIRMAN SCHRÖER: We'll take a 15-minute break. We'll
9 be back at 10 o'clock.

10 (Off record at 9:45 a.m.)

11 (On record at 10:00 a.m.)

12 CHAIRMAN SCHRÖER: I'm going to have the Staff have an
13 opportunity to ask their questions last, so I guess I want to
14 allow you now, Mr. De Francisco, to comment if you will, or --
15 and if you guys want to question each other, and just keep it
16 civil. Of course, I'll get up and keep it civil if you don't.
17 So go ahead with your comments regarding what you heard from
18 the other two parties.

19 MR. De FRANCISCO: Thank you, Mr. Chairman. I think --
20 my understanding of this proceeding today is to talk about
21 AT&T's being fit, willing, and able to operate Alascom. And
22 I had -- did not hear any comments from Alaska Telecom that
23 spoke to that issue.

24 I think we heard a very effective sales presentation for
25 the Northstar Cable. We did not oppose, and to my knowledge

-47-

1 no one opposed their application to build that cable. We may
2 be a customer in the future, just as GCI may be. We do not,
3 however, want to be required to use that facility, because we
4 talk about a competitive environment, as Alaska Telecom did.
5 And in my mind, being forced to use a facility is not conducive
6 to a competitive environment. I think the economics of the
7 marketplace and customer needs decide what facilities you use.

8 This proposal is about -- from Alaska Telecom is about
9 selling capacity on a interstate -- to interstate carriers, not
10 about customers. And again, as GCI has pointed out, and I
11 think effectively shown, additional fiber capacity has really
12 very little to do with intrastate rates.

13 Alaska Telecom said that AT&T, with over 60 percent, I
14 believe they said, of the market and ownership of facilities,
15 is in a position to dominate the market. And as a veteran of
16 the Lower 48 wars where AT&T also has about 60 percent share
17 and the heavy ownership of facilities, I think it would be
18 impossible to say AT&T dominates a market where over close to
19 two million customers a month change long-distance carriers.
20 And in fact, GCI, our competitor here, has said that they
21 welcome our entrance as spur to competition and look forward
22 to competing with us. And we look forward to competing with
23 them. I think it's a very healthy environment. And when
24 competition exists and will exist like this, it is bound to be
25 better off for the customers of Alaska.

-48-

1 Finally, Alaska Telecom said that AT&T has no economic
2 incentive to invest, because the interstate rates must mirror
3 the Lower 48. Well, we -- the situation I described in the
4 Lower 48 with the intense competition, we have every incentive
5 to invest in the network. Those rates are driven in a very
6 competitive environment and are going down. The reason you
7 invest in technology in my mind is to offer more services and
8 therefore to increase revenue or to lower costs. So we have
9 every economic incentive to invest in the network in Alaska,
10 because it is a competitive environment.

11 With respect to GCI's comments, I welcome their request
12 to work with us in the planning of the network as AT&T-Alascom
13 goes ahead with their plan of reconfiguring the network. I
14 don't think there's anything in this for AT&T-Alascom, if we
15 were ever to do anything that would disadvantage GCI's
16 customers. That's anti-competitive, and also, customers know
17 what's going on. So we welcome that offer, Jimmy, and we plan
18 to work with you closely as we do this, because GCI's customers
19 are Alaska customers as well.

20 We don't feel that needs to be a condition of the sale,
21 because if we were to do something that disadvantages GCI's
22 customers or raised the wholesale rate, we would have to come
23 before you anyway to request that. So I think the Commission's
24 purview and authority is consistent throughout this, presale
25 and post-sale. And again, we don't plan to do anything that

-49-

1 would disadvantage GCI. And if we did, I think the Commission
2 is here in an oversight capacity to talk to us about that.

3 Terry, you have anything to add?

4 MR. ELFERS: I might just speak to the switch replacement
5 question. I anticipate getting that question eventually
6 anyway. And I would point out that the switches to be removed
7 from Juneau and Fairbanks is part of the condition of the stock
8 purchase agreement. So clearly, we understand we have to do
9 something with respect to replacing that switch capacity.

10 We have not reached a decision yet as to exactly what we
11 will do. We are actively considering and pursuing alternatives
12 on a partnership basis with Alascom employees and the subject
13 matter experts ^{at} ~~in~~ our network capacity planning and delivery
14 organization or process, as we call it, in the Lower 48. One
15 of those alternative under consideration would, in fact, leave
16 switching capability in all three locations. One, in fact,
17 would reduce the switch exposure or the switch presence for
18 switch network services to a single switch. One has two
19 switches. I mean, there are a number of alternatives that we
20 are considering.

21 But I would point out that the switches do not equate to
22 points of presence. And so even if we consolidate switches
23 into Anchorage, which is under consideration, from our
24 perspective the points of presence for interconnecting would
25 remain in Juneau and Fairbanks, and it would be our

-50-

1 responsibility, not GCI's, to expand the facility capacity to
2 ensure that we could move that traffic.

3 So I hope that's responsive to that issue.

4 **MR. De FRANCISCO:** I'm sorry. One point I forgot to
5 mention that GCI made about AT&T-Alascom being the entity
6 operating here. Again, I don't see any need for a condition
7 of the sale to include that, because if AT&T wanted to enter
8 Alaska aside from AT&T-Alascom, again, they would have to
9 appear before and file before the Commission in order to do
10 that. So I think in both those issues we're dealing with
11 standard arrangements under current regulatory law, and
12 obviously we'd be pleased to comply with that.

13 **CHAIRMAN SCHRÖER:** Do the Commissioners have any questions
14 of any of these gentlemen before we move on? You'll have
15 another shot at it. I'm just wondering if you have anything
16 right now.

17 **COMMISSIONER ORNQUIST:** I'll do mine later.

18 **CHAIRMAN SCHRÖER:** Any other comments from any of the
19 parties here? Otherwise, I'm going to turn -- Mr. Schroeder.

20 **MR. SCHROEDER:** Mr. Chairman, thank you for asking
21 (laughter).

22 **CHAIRMAN SCHRÖER:** Maybe I'll be sorry, but go ahead
23 (laughter).

24 **MR. SCHROEDER:** I hope that that will not be the case, Mr.
25 Chairman. Just a few brief remarks.